

Michael R. Brown, Chairman
Kevin S. Carter, Director

Agenda for Board of Trustees
School & Institutional Trust Lands Administration
675 East 500 South, Salt Lake City, Utah
May 17, 2012

AGENDA

Attending:

Board

Mike Brown
Dan Lofgren
James Lekas
Louis Cononelos
David Ure
Mike Mower

Staff

Kevin Carter
Kim Christy
Tom Faddies
LaVonne Garrison
John Andrews
Lisa Schneider
Ron Carlson
Chet Gritzmacher
Doug Buchi
Eric Baim
Nannette Johnson

Others in Attendance:

Margaret Bird, Utah State Office of Education
Tim Donaldson, Utah State Office of Education
Charles Evans, University of Utah
Mike Canning, Wildlife Resources
John Munroe, EnergyNet
James Rosse, Salt Lake City Corporation
Judy Fahys, Salt Lake Tribune
Ryan Pleune, Citizen
Judy Lord, Citizen
Melanie Martin, Citizen
Kathy Albany, Citizen

Index Item	Page Number
1. Approval of Board Minutes	3
2. Confirmation of Upcoming Meeting Dates	3
3. Director's Report	
a. Public Discussion	3
b. EnergyNet Presentation - John Munroe	4
c. 5600 West Division of Wildlife Resources Exchange	6
d. Draft Policy on Land Block Sales	8
4. Chair's Report	
a. Beneficiary Report: Borrowing from the Trust Fund -	9
b. Litigation Update	9
5. Consent Calendar	
a. Tide Water OBA at Crescent Junction Block	10
Notification	
b. Notice of Minor Development Transaction Sun River St. George Development LC	10
Follow-up After Six Months	
c. Update Negotiated Sale-Mr. James Hanley PS 7801 Lower Miller Creek Parcel	10

1. Approval of Board Minutes

The Board approved minutes of April 12, 2012.

2. Confirmation of Upcoming Meeting Dates

The Board, without motion, confirmed the meeting dates recognizing a change for September:

June 28	Salt Lake City
July	No Meeting
August 16	Salt Lake City
September 6	Salt Lake City
October 10	Board Tour - Moab & LaSals
October 11	Moab

3. Director's Report

a. Public Discussion

Ryan Pleune addressed the Board members by indicating his presentation was an opportunity and a beginning for change. The change he is requesting is that decision-making for leases should include consideration for the future of children beyond income generation. He asked the Board, as working members of the community, to consider spiritual and moral guidelines around oil shale and tar sands as unconventional fuel sources that may or may not generate funding for schools in Utah.

He provided a summary of his request by asking that the Board consider increasing the severance tax. Mr. Pleune asked that the Board consider selling the leases that are currently under contract with Red Leaf and U.S. Oil and Gas. Mr. Pleune hoped the Board would consider leasing to conservation groups that are considering climate change. As a third option, Mr. Pleune asked the Board to join in petitioning the legislature to put a moratorium on oil shale and tar sands extraction in Utah.

Chairman Brown asked Mr. Pleune if he could provide a printed copy of his presentation. Mr. Pleune indicated the material he will provide is relevant to educate the Board on climate change.

Melanie Martin presented her concern about a lack of third party study on the novel method of extraction of oil shale and tar sands. The reference to novel methods referred to the injection of silicone gel into the ground and the long-term effect of the gel in the ground. She expressed concern that extraction could lead to release of carcinogens and put people at risk. She further expressed concern for the invasive nature and the proximity of the extraction process to communities. She closed by asking the intelligent minds in the room to come up with a better solution.

Chairman Brown asked Ms. Martin to provide a written copy of her presentation with sources.

Chairman Brown responded to the presentations on behalf of staff, Board members, and beneficiaries to say that the way the Board optimizes the portfolio does consider environmental issues important to the Board. He expressed a belief in technology and other means of protection for the environment and indicated these considerations were part of the mission of the agency.

3. Director's Report (Cont'd)

b. EnergyNet Presentation and Proposed Rule Change

Ms. Garrison reported that the Oil and Gas Group is looking into ways to use an online method for leasing oil, gas, and mineral lands. The presentation represented EnergyNet's online bidding process and ways the agency may benefit by a broader audience. Mr. John Munroe presented the service in a PowerPoint presentation with highlights as follows.

Oil and Gas Lease Sales Can Occur on the Internet Marketplace

Meeting Objectives

- How the Internet process is already working in the industry
- Advantages that have resulted from the use of Internet bidding
- Examples of recent state and federal government entities utilizing the process
- Internet Marketplace may be customized to meet the agency's needs
- Leave resources to draw from in the plan for the path forward

Industry Adoption

The oil and gas industry has already embraced the Internet as a critical part of their divestment process.

Already divesting on the Internet:

- Major oil companies
- Large independents
- Universities
- Bank trust departments
- Government institutions

The EnergyNet Marketplace

More than 16,500 active, sophisticated, registered, accredited oil and gas investors

- Top 250+ Public E&P Companies
- Top 250+ Private E&P Companies
- Private Equity backed E&P's
- Upstream MLP's
- Regional O&G Companies
- Royalty Aggregators
- Investor Groups
- High Net Worth Individuals

Increased Participation and Competition

- The EnergyNet Marketplace: Open 24/7/365 with Auctions Tuesday through Thursday
- More than 37,400 properties sold, over 3,800 active sellers
- Over \$898 million in total sales - all from a web browser

Examples of Results Achieved were provided

EnergyNet Internet Marketplace for Over the Counter Leases

SITLA identifies those leases that did not receive a bid at the quarterly auction:

- The lease information is transferred by SITLA to EnergyNet for online preparation
- Once the online presentation is prepared, the state agency may review and approve activation

3. Director's Report (Cont'd)

b. EnergyNet Presentation and Proposed Rule Change (Cont'd)

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- EnergyNet markets the asset on the website, through email, postal mail outs and other media including national publications (when appropriate)
 - EnergyNet will offer two weeks of due diligence, then one week of auction for each Lease listed if SITLA concurs with current marketing practice
 - Once the bidding period is closed, the results of the auction can be published if the agency approves
 - Notification to the winning bidder will be delivered by email, a posting on the website and other means if the agency wishes
 - EnergyNet will work with SITLA to insure internet marketing site meets all standards and requirements

EnergyNet Internet Marketplace Customized to Fit SITLA

Should SITLA require a sealed bid model, EnergyNet is experienced in handling these types of divestments. SITLA can use the Government Lease Sales site to list properties for both auctions as well as sealed bid offerings

This portion of the website will continue to provide the same services as discussed for auction sales including:

- Nationwide marketing exposure
- Customizable bidder access and registration processes
- All rules and regulations specified by the state are incorporated in the state's listing
- The EnergyNet Cartographer would be linked to the lease sale to allow bidders a view of lease location and other geographically relevant data

Those leases requiring a sealed bid would have the following differences from an auction:

- Offers are received during a time frame set by the state
- No indication of the received offers or competing bidders during the sale process
- Bidder would submit a single offer amount on the tracts offer page
- EnergyNet would collect the bids and submit them to the state for evaluation and selection

Exclusive EnergyNet Internet-based Land Survey Tools

EnergyNet offers *exclusive* online tools that supplement the sale of assets and increase buyer satisfaction with the auction experience

- Spatial relationships between assets and areas of interest
- Interactive map of all listings on EnergyNet
- Roads and satellite views of actual properties
- Useful to buyers who are seeking assets in a particular location

Funding the Internet Marketplace

Administrative Fee added to the winning bonus bid

- Suggested fee: 2% of the total bonus bid

Buyers save money – no travel, lodging, or time away from the office – making the process more efficient and less expensive for everyone

In Conclusion

- Internet lease auctions have already been proven by both the private industry and government agencies to be a valuable modernization of their lease sale processes.
- When the doors are open to thousands of bidders across the nation, there is increased participation and competition for every lease sale.
- As a result, revenue increases through higher parcel values and lower internal costs.

3. Director's Report (Cont'd)
b. EnergyNet Presentation and Proposed Rule Change (Cont'd)

Following the presentation, Chairman Brown asked Ms. Garrison what additional value she sees in this service beyond what was presented. She outlined that beyond the ability to reach a larger audience there were opportunities for higher lease bonuses and added security. Ms. Garrison indicated the plan is to step in slowly to assure these methods are proven and the way of the future.

Mr. Mower indicated he is aware of two pilot programs similar to this online bidding method and asked if there other companies offering a similar product related to oil and gas leases. Ms. Garrison indicated the Oil & Gas group would conduct an RFP to consider all service providers related to an online bidding process for SITLA.

Mr. Lofgren asked if Ms. Garrison indicated she sees this as the future means of collecting and awarding bids for SITLA. Ms. Garrison indicated the agency would keep an open mind to see how the system works for others in the industry. If this is how the industry moves, the agency will be ready and will have understanding of how to engage the methods for online bids.

Mr. Lofgren asked Ms. Garrison what issues concern her that drive her to go slowly rather than jumping in. Ms. Garrison indicated that she does not want to be the first to implement the process. Some companies do not like the online process and there may be resistance.

Chairman Brown asked what companies dislike about online bidding. Ms. Garrison indicated that the company "may leave money on the table." In the oral bid process the bids increase until they stop and the contract is awarded to the highest bid. In the sealed and online bid, the company must enter their best and highest bid, and hope it is the winning bid. The second highest bid may be measurably lower and the difference is the money left on the table.

Ms. Garrison asked the Board for consideration to concur with the change to a rule as outlined in the materials to allow an electronic bidding process as a method for the agency's use.

Lofgren/Ure Unanimously approved

"I move that we concur with the rule change as outlined."

Roll Call:

Mike Brown – yes	Dan Lofgren – yes
James Lekas – yes	Mike Mower – yes
Dave Ure – yes	Louis Cononelos – yes
Steve Ostler – yes	

c. 5600 West DWR Exchange

Kim Christy presented an exchange that began in the 1980s on the corridor in Salt Lake County from 2100 South to 1300 South at 5600 West. The area has experienced substantial change in recent years. Historically, the land was involved in manufacturing and testing ammunition. The land had

3. Director's Report (Cont'd)
c. 5600 West DWR Exchange (Cont'd)

restrictions on it in the event of ownership change. The law changed in the 1980s to allow the Division of Wildlife Resources (DWR) to exchange the property for property with equivalent wildlife value.

The Mountain View Corridor project is aggressively seeking rights of way to secure this land for the corridor. Fifty-six of the 150 acres are associated with the corridor. In Phase I, the three-way exchange has become a transaction with DWR for wildlife lands and the sale of land to the Department of Transportation (UDOT) for cash. The agency has an opportunity through this transaction to take ownership of additional land along the corridor in an exchange with DWR.

Mr. Christy provided a detailed map of the priorities for exchange associated with the first phase, which involves a sale of land to UDOT. The map also defined areas associated with the second phase of consideration for an exchange with DWR for land along the corridor.

The issue is important now because the Division notified SITLA that they have funds to expend by end of fiscal year, which may be used for costs associated with an exchange. Appraisals are pending but the agency would like the Board to know the exchange is moving forward.

Mr. Ure referred to Phase I and asked for more information about the agency's interest. Mr. Buchi spoke to the value of land for development. The agency sees the land as a commercial development opportunity. The pending appraisal could change the agency interest if it does not support the value the agency predicts for the land. The appraisal needs to align with the worth to the agency.

Many specifics need to be addressed. There is a potential for lead contamination and there is a high water table. The agency is still working on determining what the land is worth.

Chairman Brown clarified that the first phase is relevant to the corridor. The remainder of the land, in Phase II, has commercial value. Phase I can be valued now and the agency can move forward.

Mr. Ostler asked if there was a completed sight plan on the potential investment piece. Mr. Buchi indicated preliminary site evaluation is underway to identify the value with consideration to depth of the piece. Mr. Rodger Mitchell indicated the piece has good circulation and space for water distribution for land that is primarily for warehousing. The agency will come back to the board with a full presentation if the land in question is determined to have value.

Director Carter added that Phase I does not obligate the agency to complete Phase II. Phase I is a means for the agency to dispose of a number of properties in sensitive wildlife areas and convert them to cash.

Mr. Lofgren reiterated there is a direct correlation to sensitive areas and Phase I.

Mr. Mower pointed out how these exchanges reflect consideration of conservation issues as addressed earlier in the meeting through a request for the Board to consider conservation in decision-making.

Margaret Bird asked if the agency would seek other offers outside UDOT such as the duck clubs for the purchase of land located north of the Great Salt Lake. Mr. Christy pointed out the agency rules

3. Director's Report (Cont'd)
 - c. 5600 West DWR Exchange (Cont'd)

require the advertisement of an exchange as well as a sale. Director Carter indicated the agency will solicit interest from any source. Mr. Lofgren indicated the topic is a bit more targeted as the agency knows there is a market. Director Carter pointed out that through the competitive process the interest by the duck club and others can be considered. Mr. Lofgren speculated that the duck clubs might not be looking at surplus land rosters where they would discover this opportunity. Rick Wilcox added that the agency hired the appraiser to consider values.

Mr. Christy introduced Mr. Mike Canning who attended in support of the exchanges on behalf of DWR. Mr. Channing is the DWR Habitat Coordinator.

Chairman Brown indicated the issue is an informational item for the Board to express concerns with the agency moving forward. He asked if there were any concerns. The Board members expressed no concerns at this time.

Mr. Christy told the Board the agency would send additional correspondence regarding the exchange while working with the mineral groups to assure restrictions will not impede mineral development opportunities.

d. Draft Policy on Land Block Sales

Chairman Brown introduced the topic carried over from the last meeting. Director Carter reminded the Board that the change to the policy allows the agency to include the recommendation by Mr. Lekas. The policy will require the proposal be presented a second time before approval of disposal of a land block may be approved. Director Carter recommended the Board adopt the policy with this change.

Mr. Lofgren recalled from the last meeting that the policy had support with the addition identified. He made the motion the Board approve the policy as outline.

Lofgren/Cononelos Unanimously approved

“I make the motion the Board approve the policy with the defined change.”

Roll Call:

Mike Brown – yes	Dan Lofgren – yes
James Lekas – yes	Mike Mower – yes
Dave Ure – yes	Louis Cononelos – yes
Steve Ostler – yes	

4. Chairman's Report

a. Beneficiary Report: “Borrowing from the Trust” Margaret Bird

Margaret Bird presented a problem and asked for consideration of a solution. Ms. Bird reviewed the current practice for the agency to withhold money to cover agency costs until they reach the appropriation amount. Then the money goes out to the beneficiaries on a monthly basis.

4. Chairman's Report (Cont'd)
a. Beneficiary Report (Cont'd)

During the year, money is swept into the Land Grant Management Fund to meet the appropriation. The contribution is based on revenues, which can change throughout the year but schools fund the majority of the amount. All expenses, operating and capital, are paid from this fund.

In a situation where there are multiple landowners on a project and one of the beneficiaries cannot repay their portion of expenses, schools will essentially loan that beneficiary the amount they cannot cover. This practice charges the school a "Public Trust Investment Funds" rate of less than 1% interest on the repayment of the loan. As a beneficiary representative, Ms. Bird, asked the Board to create a subcommittee to draft policy for loans between trusts.

Chairman Brown asked if any member of the Board had a desire to chair the committee to seek a solution to the problems identified by Ms. Bird. The Chairman acknowledged the request by Ms. Bird and identified the request as an action item to develop a committee. He also recognized that Director Carter would provide the names of individuals from the staff to participate on the committee.

b. Litigation Update [Closed Session]

Lofgren/Ure Unanimously approved

"I move that the Board go into closed session for the purpose discussing strategy for pending or reasonably imminent litigation."

Roll Call:

Mike Brown – yes	Dan Lofgren – yes
James Lekas – yes	Mike Mower – yes
Dave Ure – yes	Louis Cononelos – yes
Steve Ostler – yes	

The Board went into closed session at 10:30 a.m. Present in the closed session were the seven members of the Board and Mr. Mark Burns, as attorney for the Board. Nannette Johnson, staff to the Board, joined the closed session at 10:40 a.m. The closed session ended at 10:53 a.m.

Lofgren/Ure Unanimously approved

"I move that the Board return to open session."

Roll Call:

Mike Brown – yes	Dan Lofgren – yes
James Lekas – yes	Mike Mower – yes
Dave Ure – yes	Louis Cononelos – yes
Steve Ostler – yes	

Upon return to open session, John Andrews discussed an EPA notice of cleanup cost for the site of the former explosive plant operated by Merrill Cook. The agency will pursue actions that affirm Mr. Cook is responsible for cleanup costs.

4. Chairman's Report (Cont'd)
 - b. Litigation Update (Cont'd)

A suit against the agency from a low bid vendor argues the agency made changes. The vendor believes he is entitled to seek payment beyond the contracted amount.

A new environmental entity called Living Rivers is taking issue with tar sands and potash.

An Addition to the Agenda at the Request of Vice Chair Dan Lofgren

Dan Lofgren recalled the Amangiri transaction from the last meeting and reminded those present that the Board approved two of three parts of a transaction.

The third part takes the land off the market for ten years while Amangiri makes lease payments. Rather than a withdrawal of land, he suggests a lease of land for five years and a two-year first-right-of-refusal at terms to be negotiated and recommended by Administration Director. The formal proposal will be presented to the Board on the Consent Calendar in June.

5. Consent Calendar

a. Tide Water OBA at Crescent Junction Block

No comments

Notification

b. Notice of Minor Development Transaction Sun River St. George Development

LC

No comments

Follow-up After Six Months

c. Update Negotiated Sale - Mr. James Hanley PS 7801 Lower Miller Creek Parcel

No comments

The meeting concluded with an update from Director Carter on the Sage Grouse listing status. The Director indicated there are a couple of critical areas still being discussed for a resolution. The U.S. Fish and Wildlife Service told the western states that the decision to list is based on the lack of regulatory mechanisms to protect and too much fragmentation of the species habitat.

Largest area of contention is on oil, gas, and mineral development on the eastern border in the north corner of the state.

The next Sage Grouse Committee meeting is on May 30th. BLM is expecting an answer from the committee by the end of July.

Upon motion by Mr. Lofgren, the Board adjourned at 11:32 a.m.